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Internal Revenue Service

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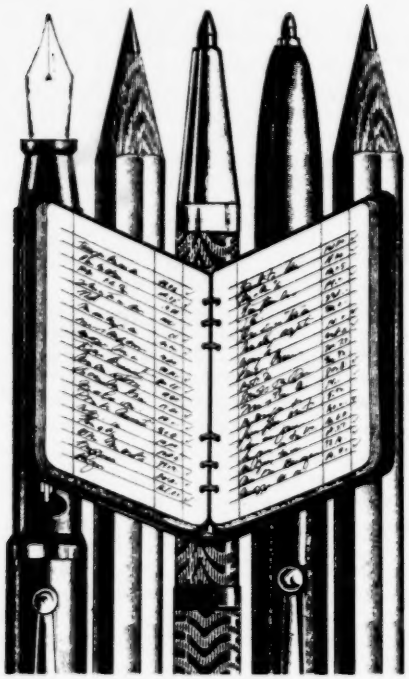
Tax Information for U.S. Government Civilian Employees Stationed Abroad

For use in preparing
1980 Returns



Introduction

This publication is designed to help U.S. Government civilian officers and employees stationed abroad to prepare federal income tax returns. It discusses the allowances, reimbursements, and business expenses that U.S. Government employees, including Foreign Service Officers, are likely to receive or incur.

U.S. citizens who are U.S. Government employees are liable for federal income taxes on the pay they receive from the Government or any of its agencies, even though they are stationed abroad. They do not qualify for the deduction for excess foreign living costs or the exclusion of income earned in a hardship area camp that may apply to U.S. citizens who are physically present in or bona fide residents of a foreign country. However, their spouses who are U.S. citizens or resident aliens may qualify if they earn income outside the United States from a private employer. See Publication 54, *Tax Guide for U.S. Citizens Abroad*, available at most Internal Revenue offices or the Office of International Operations, Internal Revenue Service, Washington, D.C. 20225.

U.S. citizens who are Government employees in U.S. possessions cannot exempt income earned in a possession from U.S. tax. However, their spouses who are U.S. citizens may qualify for this exemption if they have non-Government U.S. possession earnings. See Publication 570, *Tax Guide for U.S. Citizens Employed in U.S. Possessions.*

Certain Allowances Not Taxable

If you are a civilian officer or employee of the U.S. Government, you may exclude from your gross income amounts you receive (except for post differentials) under:

Title IX of the Foreign Service Act of 1946, as amended;

Section 4 of the Central Intelligence Agency Act of 1949, as amended;

Title II of the Overseas Differentials and Allowances Act; or

Subsection (e) or (f) of the first section of the Administrative Expenses Act of 1946, as amended, ***or section 22 of that Act.***

In general, these provisions, subject to certain conditions and limits, allow civilian officers or employees of the Government stationed abroad to exclude from their gross incomes the allowances received to cover expenses for quarters, certain repairs to a home, separate maintenance for dependents, education of dependents in special situations, travel, moving and storage, motor vehicle shipment, medical, and for Foreign Service officers and employees, representation and official residence expenses.

If you are an employee of The American Institute in Taiwan, allowances you receive are exempt from U.S. tax to the extent the amounts are equivalent to tax exempt allowances received by civilian officers and employees of the U.S. Government.

Cost-of-living allowances. If you are stationed in Alaska or Hawaii or elsewhere outside of the continental United States, your gross income does not include cost-of-living allowances granted by regulations approved by the President of the United States. Cost-of-living allowances are not included on your Form W-2. Therefore, the amount shown on Form W-2 is gross compensation after these exclusions.

Post differentials, which are allowances to offset adverse environmental conditions such as severe climate, are compensatory and must be included in income. If your agency does not include the amounts received as post differentials in your withholding statement (Form W-2), you must report the total received during the year on line 21, Form 1040, for 1980.

Other Allowances

Other allowances you receive may or may not be includible in your income.

Allowances or reimbursements you receive to cover business expenses paid or incurred while carrying out your official duties do not have to be included in income if you are required to and do make a proper accounting to your agency, and the allowances or reimbursements you receive are not more than your business expenses.

If your allowances or reimbursements are more than your business expenses, the excess you receive over the expenses must be reported as excess reimbursements on line 21, Form 1040, for 1980.

If your business expenses are more than your allowances or reimbursements, and you wish to claim a deduction for the excess expenses, you must complete and attach to your return a statement giving the following information:

1) The total of all amounts received from or charged to your agency for business expenses (except those mentioned above as specifically excluded by law),
2) The amount of your business expenses broken down into such broad categories as transportation, meals and lodging while away from home, entertainment, and other business expenses,
3) The nature of your job, and
4) The number of days away from home on business.

Deduct your excess travel and transportation expenses on line 24, Form 1040, for 1980. You can deduct your other excess business expenses on Schedule A (Form 1040) under *Miscellaneous Deductions,* if you itemize your deductions.

Form 2106, *Employee Business Expenses,* may help you figure your correct travel expense deduction. This form is available at all U.S. Embassies and consular offices or you may get it by writing to the Office of International Operations, Internal Revenue Service, Washington, D.C. 20225.

Certain Items of Taxable Income

Reemployment after serving with international organization. Amounts received by a federal employee according to the provisions of the Foreign Assistance Act of 1969, upon reemployment by a federal agency after serving with an international organization, are not exempt from federal taxation.

These amounts are equal to the difference between the pay, allowances, post differential, and other monetary benefits paid by the international organization and the pay, and other benefits that would have been paid by the federal agency had you been ***detailed*** to the international agency. The amount paid you upon reemployment does not qualify as a tax exempt allowance discussed earlier under *Certain Allowances Not Taxable.*

Sale of personal property. If you have a profit from the sale abroad of your personal property, such as an automobile or a home appliance, whether directly or through a favorable rate of exchange in converting the proceeds to U.S. dollars, the excess of the amount received in U.S. dollars over the cost or other basis of the property is a capital gain. Capital gains are reportable on Schedule D (Form 1040), *Capital Gains and Losses.* However, losses from sales of your personal property, whether directly or through an unfavorable rate of exchange, are not deductible.

Sale of your home. The gain on the sale of your principal home (within or outside the United States) is not taxed at the time of sale if within 18 months before or 18 months after the sale you buy and live in another home. The cost of the new home must be equal to or more than the adjusted sales price of the old home.

The 18-month replacement period after the sale of your old home is suspended while your tax home is outside the United States. The replacement period, plus the period of suspension, cannot last for more than 4 years after you sell your home.

For further information, see Publication 523, *Tax Information on Selling Your Home.*

Deductible Expenses—Adjustments to Income

Some expenses are deductible in arriving at adjusted gross income. This means that you do not have to itemize your deductions on Schedule A (Form 1040) to claim these amounts. Three deductions that may be of interest to you are discussed here, travel expenses, transportation expenses, and moving expenses.

Travel expenses. You may deduct on line 24, Form 1040, the reasonable and necessary expenses of travel, meals, and lodging while away from home overnight in connection with the performance of your official duties. This also includes such items as baggage charges, local transportation (such as taxi fares), reasonable tips, and reasonable cleaning and laundry expenses.

The meanings of the terms home and overnight are important. Your home for tax purposes is your regular post of duty regardless of where you maintain your family home. This term is not limited to the embassy, consulate, or legation but includes the entire city or general area in which your principal place of employment is located.

You are away from home overnight if you have to be away from the general area of your tax home for a period much longer than an ordinary day of work and, during release time while away, it is reasonable for you to need and to get sleep or rest in order to be able to do your job. However, this does not mean napping in your car. You need not be away from your tax home for an entire 24-hour day or from dusk to dawn so long as your relief from duty during your absence is enough time in which to get necessary sleep or rest.

Reimbursement. You may deduct the travel expenses that have not been reimbursed by your agency. The expenses must be directly related to the performance of your official duties and must not be, under the particular circumstances, either lavish or extravagant.

If you could have received reimbursements for expenses from your agency, but did not properly request them, you will not be entitled to a deduction for those expenses.

Not all travel expenses are deductible. If your trip was mainly personal, your traveling expenses to and from the destination are not deductible even if you engage in business activities while there. However, expenses while at your destination that are properly allocable to your business are deductible. If your trip is mainly for business and you stay longer for nonbusiness reasons, make a side trip, or have other nonbusiness activities, the travel expenses to and from your destination are deductible. But, the part of your expense for the nonbusiness activity is not deductible. Travel expenses of your spouse, dependents, or domestic servants who go with you on a trip ordinarily are not deductible.

Home leave. The Foreign Service Act grants all Foreign Service Officers serving abroad a leave of absence about every 2 years in order to refamiliarize themselves with the American way of life and so become better representatives of this country in a foreign country. This period is called ***home leave*** and may be used to take care of certain personal matters such as medical and dental check-ups, buying a new wardrobe, and visiting relatives.

Amounts paid by a Foreign Service Officer for travel, meals, and lodging while on home leave are not deductible as travel or business expenses. They are personal, living, or family expenses and are not deductible for tax purposes.

Transportation expenses. This includes the cost of transportation by air, rail, bus, or taxi, and the cost of operating and maintaining your car, but does not include the cost of meals and lodging. Allowable transportation expenses directly attributable to the actual conduct of your official duties are deducted on line 24, Form 1040, even if you are not away from home overnight.

If you use your car for both personal and business purposes, you must divide your expenses between business and personal use. Your deductible transportation expenses include a pro rata cost (the percentage the business miles are of the total miles of the car for the year) of gasoline, oil, car repairs and similar expenses, and depreciation.

Standard mileage rate. You may use the standard mileage rate of 20 cents a mile for the first 15,000 miles of business use each year and 11 cents a mile for each additional mile in the same year. This rate is used instead of actual operating costs.

You cannot use the standard mileage rate if you depreciated your car in the past by any method other than the straight line method or if you claimed additional first year depreciation. You also must own the car; must not use it for hire, such as a taxi; and must not operate a fleet of cars, using two or more cars at the same time.

Expenses for commuting between your home and any business location are not deductible. However, if you work at two or more different places in the same day, you can deduct your expenses in getting from one place of work to the other.

Moving expenses. You may deduct on line 23, Form 1040, the reasonable expenses of moving yourself, your family, and your household goods and personal effects to your new principal place of employment.

Special rules apply if your move is to a new job location outside the United States. See *Foreign moves,* later in this discussion.

You may be able to deduct moving expenses if you meet the following requirements.

Distance. Your new job location must be at least 35 miles farther from your former home than your old job location was. If you did not have an old job location, your new job location must be at least 35 miles from your former home.

Time. If you are an employee, you must work full time for at least 39 weeks during the 12 months right after you move.

Closely related to the start of work. In general you must have incurred your moving expenses within one year from the time you first report to your new job or business. The move must be in connection with the start of work at the new location.

A move is generally not in connection with the start of work if the distance from your former home to the new job location is shorter than the distance from your new home to the new job location. A move is considered closely related to the start of work if you are required to live at the new location as a condition of employment, or you will spend less time or money commuting from the new home to the new job.

Your expenses must be reasonable. You may not deduct expenses that are more than a reasonable amount for the circumstances of the move. The cost of traveling from your former home to your new one should be by the shortest, most direct route available by conventional transportation.

Deductible moving expenses. Included are the reasonable costs of:

1) Moving household goods and personal effects (including packing, crating, intransit storage, and insurance) of both you and members of your household,
2) Transportation, meals, and lodging for yourself and members of your household for one trip from your former home to your new home (including costs of getting passports), and
3) Pre-move househunting trips and temporary living quarters for up to 30 days after obtaining employment, and certain expenses incident to disposing of the old and acquiring a new home. These expenses cannot exceed $3,000, of which no more than $1,500 can apply to expenses of househunting trips and temporary quarters.

A member of your household includes anyone who has both your former and new home as his or her home, except a tenant or employee unless the tenant or employee is a person for whom you are entitled to claim a dependency deduction.

Retirees. You may deduct the costs of moving to the United States when you retire if your principal place of work and former home were outside the United States and its possessions. You do not have to meet the requirement mentioned earlier under *Time*. The other requirements must be met.

Survivors. You may deduct moving expenses for a move to the United States, if you are the spouse or dependent of a person whose job location at the time of death was outside the United States and its possessions. The move must begin within 6 months after death and must be from a former home outside the United States in which you lived with the decedent at the time of death. You are not required to be a full-time employee or to be self-employed at the new location, however, the other requirements as previously discussed, must be met.

Foreign moves. If you move to a new job location outside the United States and its possessions, the rules discussed before under *Deductible moving expenses*, are changed as follows.

1) You may deduct the costs of temporary living quarters for 90 days in the area of your new job location instead of 30 days.
2) You may deduct $6,000 for the costs of pre-move househunting trips, temporary living quarters, and for expenses involved in selling, buying, or leasing a home. Of the $6,000 limit, you may deduct up to $4,500 for the costs of househunting trips and temporary living quarters.
3) The costs of moving household goods also includes the reasonable expenses of moving household goods and personal effects to and from storage and of storing the goods and effects for part or all of the period that your new job location abroad continues to be your main job location.

Forms to file. File Form 3903F, *Foreign Moving Expense Adjustment*, for foreign moves, and for all other moves, file Form 3903, *Moving Expense Adjustment*.

For additional information about moving expenses, see Publication 521.

Publication 521, Form 3903F, and Form 3903 are available at U.S. Embassies and consular offices, or by writing to the Office of International Operations, Internal Revenue Service, Washington, D.C. 20225.

Other Deductible Business Expenses—Schedule A (Form 1040)

In addition to moving and business travel and transportation expenses deductible from your gross income on lines 23 and 24, Form 1040, you are entitled to deduct certain other business expenses. These expenses generally may be deducted only if you itemize your deductions on Schedule A (Form 1040).

Membership dues in professional societies, relating to your business or profession, are deductible.

Subscriptions to professional publications. If the publication is related to your work, the subscription cost is deductible.

Educational expenses. Generally, educational expenses are considered to be personal expenses and are not deductible. However, under some circumstances, education expenses of civilian officers and employees of the Government may be considered business expenses and deductible.

You may deduct expenses for education that maintains or improves skills required in your present position, or meets the express requirements of your agency to retain your present position, salary, or status.

You may not deduct the expenses for education to meet minimum educational requirements for qualification in employment. Nor is the expense deductible if the education is a part of a program of study leading to qualifying you for a new position, even if the education is required by your agency, or it maintains or improves skills required in your work.

Expenses for travel as a form of education are deductible ***only*** to the extent they are ***directly*** related to your duties in your work.

Foreign service representation and official residence expenses. If you are an officer or employee of the Foreign Service of the Department of State, you may deduct representation and official residence expenses. To be deductible, your expenses must be more than the allowances or other payments received under Title IX of the Foreign Service Act of 1946, as amended, provided:

1) These excess expenses are supported by a certificate from the Secretary of State attesting that they were incurred for the benefit of the United States, and
2) These expenses would be reimbursable under the terms of the Act if the Department of State had sufficient funds for these reimbursements.

You should request the certificate from the certifying officer at the post for which the expenses are being claimed. The request must be made in accordance with 4 FAM 824, dated March 4, 1970. In addition, the expenses must be of the types authorized by Chapters 300 and 400 of Standardized Regulations (Government Civilian, Foreign Area).

These regulations state what are and what are not allowable official residence expenses. Among the items not allowable are the amounts a principal representative must pay personally, according to grade, for the wages and maintenance of household servants. These regulations are available at all U.S. Embassies and consular offices.

Certificates must be signed by authorized certifying officers to be acceptable. Certificates signed by other State Department officials or employees are ***not*** valid.

If the excess expenses are not supported by a certificate from the Secretary of State, they still may be deducted on Schedule A (Form 1040) if they are ordinary and necessary in performing your official duties.

To be deductible, excess expenses for travel, entertainment, and gifts, including those certified by the Secretary of State, must comply with the rules for recordkeeping and accounting to your employer.

If your representation or official residence expenses are incurred and paid in one tax year and you are reimbursed in a later tax year, the reimbursement received under authority of Title IX will not be included on your return in the year the expenses are claimed.

If you file your return on the cash receipts and disbursements method and you itemize deductions, report on Schedule A (Form 1040) the deductible representation or official residence expenses you pay during the year that are more than the reimbursement received during that year. This is so even though the reimbursement may be for a different tax year.

Nondeductible Items

You may find a check list of certain nondeductible items helpful.

Contributions. Your contributions to any foreign charities (except for certain Canadian organizations), churches, governments or their political subdivisions are not deductible. Only contributions to organizations created or organized within the United States, or its possessions, or under their laws, are allowable.

For more information, see Publication 526, *Charitable Contributions.*

Foreign taxes that are not deductible include personal property, sales, and gasoline taxes. However, such taxes incurred and paid in performing your official duties may be deductible as business expenses.

You may deduct a foreign country's real property tax on Schedule A (Form 1040) if you itemize your deductions. You are also allowed either an itemized deduction or a foreign tax credit for foreign income taxes. For further information about foreign income tax deductions and credits, see Publication 514, *Foreign Tax Credit for U.S. Citizens and Resident Aliens.*

Repairs and alterations on your personal residence are not deductible.

Child support payments. Payments under a decree of divorce or separation agreement for the support of a minor child are not deductible.

Commuting. You may not deduct the cost of traveling to and from work.

Meals. The cost of your midday meals or meals while working late are not deductible (except while traveling away from home overnight).

Loss on conversion of U.S. dollars into foreign currency. The conversion of U.S. dollars into foreign currency at an official rate of exchange that is not as favorable as the free market rate does not result in a deductible loss.

Recordkeeping Rules

If the amount of your business expenses is the same as the reimbursements or allowances you receive for them and you make an adequate accounting to your agency, you ordinarily will not be required to prove the expenses. However, if you claim a deduction for business expenses that is more than the reimbursements or allowances received, you must keep adequate and detailed records of all your business expenses.

Travel. You must keep records and supporting evidence to prove the following elements about deductions for traveling expenses (including meals and lodging while away from home overnight):

1) The amount of each separate expense for travel away from home overnight, such as the cost of your transportation or lodging, but the daily cost of your breakfast, lunch, dinner, and other incidental expenses may be totaled if they are listed in reasonable categories, such as meals, gasoline and oil, and taxi fares,
2) The dates of your departure and return for each trip away from home, and the number of days spent on business away from home overnight,
3) The destination or locality of your travel, described by name of city, town, or similar designation, and
4) The business reason for your travel or the business benefit gained or expected to be gained from your travel.

Records for substantiation of your travel expenses should be kept in an account book, diary, statement of expense, or similar record supported by other records, such as receipts or cancelled checks in sufficient detail to establish the elements for these expenditures. You do not need to duplicate information maintained in an account book or diary that is shown on a receipt as long as your records and receipts complement each other in an orderly manner.

Your records must be timely. You should record the elements of an expenditure in your account book or other record at or near the time of the expenditure. Entries made later, when there is a lack of accurate recall, will not comply with these rules.

Each expense should be recorded separately in your records. However, some items may be totaled in reasonable categories. You may make one daily entry for categories, such as cab fares, telephone calls, meals while away from home overnight, gas and oil, and other incidental costs of travel. Tips either may be grouped with the cost of the service rendered to you or they may be recorded separately.

Documentary evidence is required to support all expenditures for lodging while traveling away from home. It is also required for any other expenditure of $25 or more, except transportation charges if the evidence is not readily available. Documentary evidence is a receipt, paid bill, or similar evidence sufficient to support an expenditure. Documentary evidence ordinarily will be considered adequate to support an expenditure if it discloses the amount, date, place, and essential business character of the expenditure.

An example of a document that is not adequate evidence is a cancelled check drawn payable to a named payee if it is not combined with other evidence to show that the check was used for a business purpose.

Confidential information relating to an element of an otherwise deductible expenditure, such as the place, business purpose, or business relationship, need not be put in your account book, diary, or other record. However, the information has to be recorded elsewhere at or near the time of the expenditure and be available to substantiate that element of the expenditure.

Foreign Bank Accounts

You must file Treasury Department Form 90-22.1, *Report of Foreign Bank and Financial Accounts,* if at any time during the year, you had an interest in, or signature or other authority over, a bank account, securities account, or other financial account in a foreign country and the combined assets in the account(s) were more than $1,000. Do not include accounts in a U.S. military banking facility operated by a U.S. financial institution.

File the completed form by June 30, 1981, with the U.S. Treasury Department at P.O. Box 28309, Central Station, Washington, D.C. 20005.

Treasury Department Form 90-22.1 is available from Internal Revenue offices, at most U.S. Embassies and consulate offices, or by writing to the U.S. Treasury Department at the preceding address.

Tax Computed by the Internal Revenue Service

Under certain conditions, you may choose to have the Internal Revenue Service figure your tax. These conditions along with other helpful information may be found in the instructions you receive with your income tax forms.

Taxpayer Assistance

Taxpayer assistance in answering tax questions and filling out tax returns is available in person or by mail from Internal Revenue offices in the following cities:

Bonn, Germany	Paris, France
Caracas, Venezuela	Rome, Italy
Johannesburg, South Africa	Saó Paulo, Brazil
London, England	Singapore
Manila, Philippines	Sydney, Australia
Mexico City, Mexico	Tokyo, Japan
Nassau, Bahamas	Vancouver, Canada
Ottawa, Canada	

The offices generally are located in U.S. Embassies or consulates. You can get income tax forms and instructions during every tax return filing period from U.S. Embassies and consulates abroad.

The Internal Revenue Service conducts an overseas taxpayer assistance program during the filing season (January to mid-June). Find out if Internal Revenue Service personnel will be in a given area by contacting the consular office at the nearest U.S. Embassy.

If your question is about a return you have filed, write to the Internal Revenue Service Center where you filed your return.

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